



Few of Reichhold's vast array of products are known to the consuming public. Most, however, are used in the manufacture of finished products which are readily recognized.

This year, our Annual Report depicts many of the finished items made by our customers containing Reichhold products.

Reichhold continues to help industry make good ideas work.

OUR YEAR AT A GLANCE

(Thousands of dollars except per share items)

	1979	1978
Sales	\$ 287,354	212,322
Net earnings	6,378	5,101
Basic earnings per common share ...	\$ 2.40	2.53
Book value per common share ...	\$ 13.15	11.81

See notes at foot of 10 year financial review on page 23.

few of Reichhold's vast array of products are known to the consuming public. Most, however, are used in the manufacture of finished products which are readily recognised. This year our Annual Report depicts many of the finished forms made by our customers, combining Reichhold products. Reichhold continues to help industry make good ideas work.

OUR YEAR AT A GLANCE

Figures are in £ millions unless stated otherwise

1978	1977
Sales	\$ 28,304
1978 earnings	\$ 2,78
1977 earnings	\$ 2,107
Basic earnings per common share	\$ 2.46
1978 earnings per common share	\$ 1.81

Reichhold is a public company listed on the New York Stock Exchange



PRESIDENT'S MESSAGE TO SHAREHOLDERS

The year 1979 was another year of profitable growth for Reichhold Limited. Once again, the Company's major targets were exceeded in all branches.

Sales of more than \$285 million represent an increase of 35% over 1978, while our net earnings rose 25% to \$6.378 million.

Fully diluted earnings per share improved from \$1.60 in 1978 to \$1.83 in 1979. Net worth of the Company reached \$48 million, up from \$4 million just ten years ago! This increased strength gained the Company additional recognition in the financial community.

In recognition of higher earnings and the Company's improved earning capacity, the board of directors increased the common share annual dividend by 20% to 48 cents per share. This was the eighth consecutive year of dividend increases.

Reichhold's Resin Division had another very successful year, with substantial increases in both sales and earnings. Expansion of the Thunder Bay plant will significantly increase capacity to serve the forest products industry. In addition, a plant is under construction in British Columbia to produce a new plywood glue extender, a product used extensively in that industry. There was additional expansion in other facilities of the Resin Division, which will allow it to continue to maintain its leadership in the surface coatings, molding compounds and reinforced plastics industries. Our Intertech Division continued its enviable growth record in 1979, providing

materials and services, as well as know-how, to boat builders and reinforced plastics manufacturers all across Canada. Intertech has expanded its services in some parts of the country to sell insulation materials.

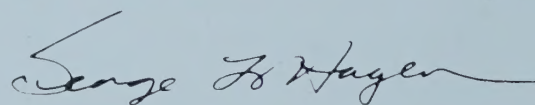
Reichhold carefully guards its reputation as the leading supplier of equipment, inks and supplies to Canada's graphic arts industry. The Sears Division and the Canada Printing Ink Division, together operate sales and service facilities in strategically located centres across the country, serving this important segment of Canada's economy. In 1979, Sears created its Systems Division to sell and service computer-related products, while Canada Printing Ink continued the aggressive expansion of its ink manufacturing capability in both Canada and the United States.

Of great importance is Reichhold's further expansion into the manufacture and distribution of agricultural and lawn and garden chemicals in both Canada and the United States. This portion of Reichhold's business now accounts for more than 29% of the Company's revenues. The Company made two acquisitions in this field in 1979 – the Sunniland Corporation of Sanford, and Florida Seed and Feed Company, Inc. of Ocala – both in the state of Florida. These new members of the Reichhold family complement Woolfolk Chemical Works, Inc. in Fort Valley, Georgia, to create a powerful manufacturing and marketing force in the southeastern United States.

In Canada, the Niagara Chemical Division again recorded substantial sales increases in the marketing of agricultural products and machinery.

1980 promises many new and exciting opportunities for Reichhold. The outlook for the future continues to be bright and we enter the eighties with a good measure of enthusiasm. Reichhold's management continues to stress planning at all levels, as a key factor in the orderly growth of both sales and profit.

We are proud of the Company's accomplishments in 1979, and on behalf of the shareholders and the board of directors, I would like to thank and congratulate all our employees for their untiring efforts.



George L. Hagen
President and Chief Executive Officer

RAPPORT DU PRÉSIDENT AUX ACTIONNAIRES

L'année 1979 a été une autre année profitable pour Reichhold Limitée. Une fois de plus, les objectifs fixés ont été dépassés dans toutes les succursales de la compagnie.

Les ventes, qui se chiffrent par plus de \$285 millions, représentent une augmentation de 35% par rapport à 1978, alors que nos bénéfices nets ont augmenté de 25% pour un total de \$6.378 millions.

Les bénéfices pleinement atténués par action ont augmenté de \$1.60 en 1978 pour atteindre \$1.83 en 1979. La valeur nette de la compagnie a atteint \$48 millions, comparativement à \$4 millions, il y a à peine dix ans ! Notre force, toujours croissante, a permis à notre compagnie d'ajouter d'autres lauriers au sein du monde des affaires.

Cette croissance a permis au conseil d'administration de hausser le dividende annuel des actions ordinaires de 20% jusqu'à 48¢ par action. C'est la huitième année consécutive où il y a hausse du dividende.

La division de la résine de Reichhold a connu une autre année très prospère, avec des augmentations substantielles au niveau des ventes et des bénéfices. Avec l'expansion de son usine à Thunder Bay, la compagnie sera en mesure d'apporter une contribution vitale à l'industrie des produits forestiers. En plus, une usine de blanc de colle est présentement en voie de construction en Colombie-Britannique. L'expansion additionnelle de la division de la résine a permis à

Reichhold de maintenir sa position à l'avant-garde dans la fabrication des résines destinées aux enduits de surfaces, aux composés à moulage, aux produits en plastique renforcé et à d'autres importants segments de l'industrie.

Notre division Intertech n'a cessé de croître en 1979, dispensant produits, services et conseils techniques aux constructeurs de bateaux et manufacturiers de plastiques renforcés de l'ensemble du Canada. Intertech offre maintenant un nouveau service dans divers points du pays, soit la vente des matériaux d'isolation.

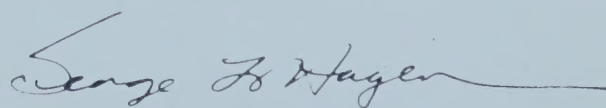
Reichhold maintient jalousement sa réputation de plus grand fournisseur d'équipement, encre et autres produits dans l'industrie des arts graphiques au Canada. La division Sears, de concert avec la division de Canada Printing Ink, vendent et offrent des services dans tous les centres stratégiques du Canada, contribuant ainsi grandement à ce secteur de l'économie canadienne. En 1979, Sears créait sa division des Systèmes destinée à la vente et au service des produits informatiques, alors que la division de Canada Printing Ink poursuivait l'expansion de ses capacités de fabrication d'encre au Canada et aux Etats-Unis.

A noter aussi l'importance du fait que Reichhold s'est lancée dans la fabrication et la distribution de produits chimiques destinés aux pelouses, jardins et terres agricoles et ce, tant au Canada qu'aux Etats-Unis. Cette portion des activités de Reichhold compte maintenant pour 29%

des revenus de la compagnie. Celle-ci a fait deux acquisitions dans cette veine en 1979 — Sunniland Corporation de Sanford et Florida Seed and Feed Company Inc. de Ocala — les deux dans l'état de la Floride. Ces nouveaux membres de la famille Reichhold complètent Woolfolk Chemical Works Inc. de Fort Valley, Georgia, dans le but de créer une puissance de fabrication et de mise en marché dans le sud-est des Etats-Unis. Notre division Niagara Chemical affiche, une fois de plus, des augmentations au niveau des ventes et de la mise en marché de la machinerie et des produits agricoles à travers le Canada.

L'année 1980 s'annonce pleine d'opportunités nouvelles et passionnantes pour Reichhold. Nos prévisions pour l'avenir sont optimistes et ambitieuses. Nous entrons dans les années quatre-vingt avec un enthousiasme considérable. La direction de Reichhold insiste, comme toujours, sur la planification à tous les niveaux, le facteur-clé dans la croissance des ventes et des bénéfices.

Nous sommes fiers des réalisations de la compagnie en 1979, et au nom des actionnaires et du conseil d'administration, j'aimerais remercier et féliciter tous nos employés pour leurs efforts inlassables.



George L. Hagen
Le président et chef de la direction



RESINS FOR FOREST PRODUCTS

Reichhold has maintained its position as the leading supplier of resins to Canada's forest products industry.

The forest products industry manufactures plywood, particleboard, hardboard and waferboard, all of which are used extensively in the furniture and construction industries.

Reichhold operates five strategically located resin plants to serve this vital portion of Canada's economy. Its resin producing facilities have been continually expanded to meet rising demand. This area of activity is expected to expand still further with the growth, in production capacity, of waferboard and particleboard. The trend is especially evident in the United States, where Reichhold has established markets over the past several years.

In 1979, a major expansion was completed at Reichhold's Thunder Bay, Ontario plant, to also produce the Company's spray-dried phenol-formaldehyde resins. These resins, which are used in the manufacture of waferboard, exhibit excellent non-stick qualities, as well as ease in handling and storage, features not commonly found in liquid resins. Because of their durability, plywood and waferboard have found numerous uses in the construction industry, including fencing and roofing.

Urea-formaldehyde resin, a liquid adhesive used to bond particleboard, is produced at Reichhold's plants at Port Moody

and Kamloops, B.C., Thunder Bay and North Bay, Ontario, and Ste. Thérèse, Québec. Particleboard is tough and durable and is used extensively in the manufacture of home and office furniture.

Treated fibre overlays on particleboard provide a decorative finish for kitchen cabinets and furniture. Paper is printed with a wood grain or other design, treated with melamine-formaldehyde resin, and applied to the particleboard under heat and pressure.

The treated paper adheres to the particleboard during curing and the resulting surface is hard, durable, and mar-resistant. An excellent alternative to costly natural wood, this product is comparatively inexpensive and readily available.

Reichhold resins – helping the forest products industry to make good ideas work.





SYNTHETIC RESINS FOR SURFACE COATINGS

Reichhold is the largest producer of synthetic resins for the surface coatings industry in Canada.

These resins include alkyds and vinyl acetate emulsions – the backbone of Reichhold's coating business – plus urethanes, acrylics, melamines, polyesters, epoxies, ureas, and phenolics.

Alkyd resins form the basis of most industrial paints and surface coatings. The durable quality of these coatings makes them ideal for use on products such as farm machinery, outdoor equipment, truck bodies, refrigerators, and home appliances.

Leading paint manufacturers use vinyl acetate emulsions in the formulation of household latex paints.

Technical developments in water-based compositions have produced surface coating products with marked advantages in performance, low pollution and energy conservation as well as products formulated for fast drying with ultra-violet light and electron beam energy.

Reichhold resins also find application in the manufacture of caulking compounds, wood stains, sealers, varnishes, aerosol paints, and can linings.

Reichhold synthetic resins – helping the surface coatings industry to make good ideas work.





RESINS FOR PLASTICS

Reichhold is one of Canada's leading manufacturers of polyester resins for plastics. Because of its versatile character, modifications to the basic formulations can produce a kaleidoscope of end products.

Outdoor pleasure and recreational equipment such as swimming pools, diving boards, patio furniture, travel trailers, surfboards, water skis, and snow skis are often made from plastics containing Reichhold's polyester resins, as are hulls for canoes, power boats and sailboats, including the 1979 Canada Cup Series winner, "Evergreen".

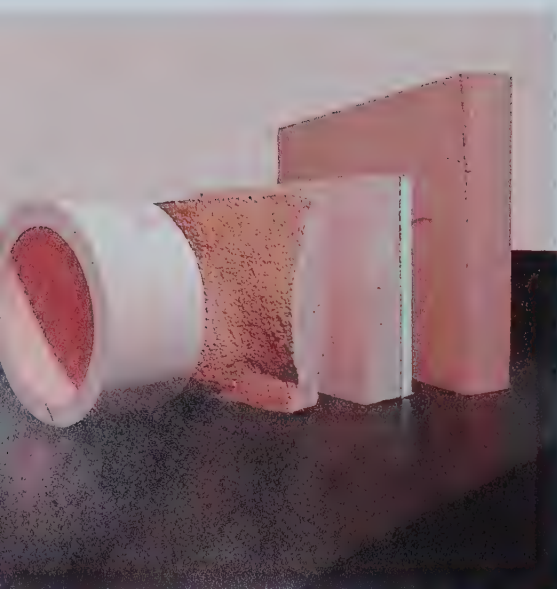
Commercial applications include car and truck bodies, truck cabs, subway cars, and stadium seating. One of Reichhold's polyester resins is used to construct reinforced plastic seats for McDonald's restaurants, while flexible polyester resins are found in automotive repair compounds.

Other formulations of the basic resin create a non-corrosive composite, ideally suited for use in the manufacture of gasoline storage tanks, sewage pipes and tanks for storing acids and other chemicals.

Phenolic moulding compounds, produced at Reichhold's facility in Lindsay, Ontario, are both heat resistant and non-conductive and are found in such applications as appliance handles, electrical switch boxes, automotive coil and distributor caps, and hand and power tool casings. Reichhold also markets melamine and urea moulding compounds.



RESINS FOR PLASTICS



Technological innovation is the highlight in insulating resins. Reichhold's recent development of a "1+1 phenolic foam" system of insulation is being marketed in several countries. This stable, fire-retardant material can be used for insulating unusual shapes such as preformed pipe-wrapping and cores for doors and it can be poured or sprayed in place to insulate homes, commercial buildings, refrigerators or freezers. Urealite, a urea foam insulation, is used primarily to insulate older homes and is applied in place by filling up the existing wall cavity.



Reichhold is also a leading manufacturer of phenol-formaldehyde resins used in the production of glass fibre insulation materials.

Polyurethane foam for insulating large flat-roofed buildings and other applications, is distributed by Reichhold's Intertech Division as well as Sunniland Corporation, who supply materials to the roofing business from four locations in Florida.

Reichhold resins – helping the plastics industry to make good ideas work.



Reichhold Limited

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1979 with comparative figures for 1978 (thousands of dollars except for per share items)

	1979	1978
Sales (notes 3 and 4)	\$ 287,354	212,322
Cost of goods sold	<u>227,324</u>	<u>167,427</u>
Gross profit	60,030	44,895
Selling, general and administrative expenses	<u>43,411</u>	<u>32,763</u>
Operating profit	16,619	12,132
Interest expense (net) (note 5)	<u>5,794</u>	<u>3,094</u>
Earnings before income taxes	10,825	9,038
Income taxes:		
Current	3,189	1,303
Deferred	<u>1,258</u>	<u>2,634</u>
	4,447	3,937
Net earnings	<u>\$ 6,378</u>	<u>5,101</u>
Earnings per common share:		
Basic	<u>\$ 2.40</u>	<u>2.53</u>
Fully diluted (note 6(b))	<u>\$ 1.83</u>	<u>1.60</u>
The statement of earnings includes the following charges:		
Depreciation and amortization of property, plant and equipment	\$ 2,979	2,310
Amortization of deferred charges	94	32
Amortization of goodwill	191	97
Directors' and senior officers' remuneration	962	686

See accompanying notes to consolidated financial statements.

Reichhold Limited

(Incorporated under the laws of the Province of Ontario, Canada)

CONSOLIDATED BALANCE SHEET

December 31, 1979 with comparative figures for 1978 (thousands of dollars)

Assets	1979	1978
Current assets:		
Cash	\$ 2,882	207
Receivables, net of allowance for doubtful accounts	49,635	37,431
Lien notes receivable (note 7)	6,867	6,036
Inventories:		
Raw materials	8,881	7,976
Finished goods	45,331	34,437
Total inventories	54,212	42,413
Prepaid expenses and deposits	1,571	1,951
Total current assets	115,167	88,038
Property, plant and equipment:		
Buildings	12,475	9,368
Equipment and leasehold improvements	41,650	29,604
	54,125	38,972
Less accumulated depreciation and amortization	18,038	15,226
	36,087	23,746
Land	2,958	1,923
Net property, plant and equipment	39,045	25,669
Other assets, at cost less amortization:		
Goodwill	526	699
Other non current assets	1,141	385
	1,667	1,084
	<u>\$ 155,879</u>	<u>114,791</u>

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	1979	1978
Current liabilities:		
Bank advances and acceptances, secured (note 8)	\$ 56,612	39,439
Accounts payable and accrued expenses	29,691	24,133
Income taxes payable	1,280	44
Current portion of long term debt (note 9)	206	220
Current portion of deferred income taxes	900	993
Total current liabilities	88,689	64,829
Long term debt (note 9)	10,890	12,900
Deferred income taxes	7,614	6,263
Shareholders' equity:		
Capital stock (note 6):		
Preference shares:		
Authorized 2,579,035 preference shares with a par value of \$10 each; issued 579,035		
7¼% cumulative redeemable convertible preference shares, Series A		
(1978 – 784,750 shares)	5,790	7,847
Common shares:		
Authorized 7,416,347 shares without par value; issued 3,239,140 shares		
(1978 – 1,910,390 shares)	18,644	3,507
Contributed surplus	1,436	1,436
Retained earnings (note 6(d))	22,816	18,009
Total shareholders' equity	48,686	30,799
Commitments (note 10)		
	<u>\$ 155,879</u>	<u>114,791</u>

On behalf of the Board:

Director D.G. McNABB

Director G.L. HAGEN

Reichhold Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1979 with comparative figures for 1978 (thousands of dollars)

	1979	1978
Additions to working capital:		
Net earnings	\$ 6,378	5,101
Add charges not requiring an outlay of funds:		
Depreciation and amortization	3,264	2,439
Deferred income taxes (non current)	1,351	2,432
Additions to working capital from operations	10,993	9,972
Common shares issued for cash (note 6(b))	13,013	97
Long term debt	624	—
Proceeds on sale of fixed assets	136	83
Total additions to working capital	24,766	10,152
Deductions from working capital:		
Acquisitions (note 2)	9,382	—
Less working capital acquired	5,633	—
Net acquisitions	3,749	—
Additions to property, plant and equipment	12,506	7,583
Additions to goodwill	19	415
Additions to other non current assets	426	—
Cash dividends	1,504	1,359
Reduction of long term debt	3,293	720
Total deductions from working capital	21,497	10,077
Increase in working capital	3,269	75
Working capital, beginning of year	23,209	23,134
Working capital, end of year	\$ 26,478	23,209

See accompanying notes to consolidated financial statements.

Reichhold Limited

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1979 with comparative figures for 1978 (thousands of dollars)

	1979	1978
Retained earnings, beginning of year	\$ 18,009	14,267
Net earnings for the year	<u>6,378</u>	<u>5,101</u>
	<u>24,387</u>	<u>19,368</u>
Deduct:		
Cash dividends	1,504	1,359
Stock dividends	<u>67</u>	<u>—</u>
	<u>1,571</u>	<u>1,359</u>
Retained earnings, end of year	<u>\$ 22,816</u>	<u>18,009</u>

See accompanying notes to consolidated financial statements.



Peat, Marwick, Mitchell & Co.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Reichhold Limited as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Reichhold Limited was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of a United States subsidiary.

Chartered Accountants

P.O. Box 31,
Commerce Court Postal Station,
Toronto, Ontario M5L 1B2

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Toronto, Canada
February 26, 1980

Reichhold Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1979

1. Summary of significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All material inter-company items have been eliminated.

(b) Lien notes receivable:

In accordance with generally recognized practice, lien notes receivable arising from instalment sales, which include amounts due after one year, are included in current assets.

(c) Inventories:

Inventories are stated at the lower of cost (first-in, first-out basis) and replacement cost for raw materials and at the lower of cost and net realizable value for finished goods except for chemical manufactured goods which are generally at the lowest of cost, reproduction cost and net realizable value.

(d) Property, plant and equipment:

Property, plant and equipment are carried at cost. On retirement or disposal of such assets, the cost thereof and related accumulated depreciation are eliminated from the accounts and any resultant gain or loss is included in income.

Depreciation of buildings and equipment is based on the estimated useful lives of the assets, calculated on the straight-line and diminishing balance methods. The principal categories and amortization periods or rates are as follows:

Buildings	5% diminishing balance
Machinery and equipment	5 to 15 years straight-line
Automobiles	30% diminishing balance
Leasehold improvements	straight-line over the respective terms of the leases

(e) Goodwill:

Goodwill, being the excess of the cost of subsidiaries and businesses acquired over the fair value of their underlying net assets at the dates of acquisition, is being amortized to earnings on the straight-line method over its estimated life. The periods of amortization currently range from 5 to 10 years.

(f) Income taxes:

Investment tax credits are treated as a reduction of the carrying value of the related assets.

(g) Foreign currency translation:

Assets, liabilities, revenue and expenses of foreign subsidiaries are translated into Canadian dollars at the exchange rates prevailing at the end of the year. Transactions in foreign currencies are recorded at the Canadian dollar equivalent at the time of the transactions and any resulting foreign exchange gains or losses are expensed. Net unrealized translation foreign currency gains or losses, which were not significant, are deferred.

2. Acquisitions:

During the year the Company made the following acquisitions:

In August all of the outstanding shares of Florida Seed & Feed Company, Ocala, Florida were acquired and in September substantially all of the assets of Chase & Co., Sanford, Florida were acquired through the Company's newly-formed U.S. subsidiary, Sunniland Corporation. These companies are engaged in the formulation and distribution of a broad line of agricultural chemicals and supplies.

In August all of the shares of Chemical Manufacturing Exchange, Inc., Crockett, Texas were acquired. This company processes and distributes chemicals to the oil and gas industry.

The consolidated statement of earnings of the Company includes the results of operations of these acquisitions from the dates the acquisitions were made. The acquisitions, which were accounted for by the purchase method, are summarized as follows:

	(thousands of dollars)
Net assets acquired, at fair values:	
Current assets	\$ 7,583
Current liabilities	1,950
Working capital	5,633
Property, plant and equipment	3,983
Long term debt	(658)
Other assets	424
	<u>\$ 9,382</u>
Consideration:	
Cash	\$ 8,798
Non interest bearing note payable due July 31, 1980	584
	<u>\$ 9,382</u>

3. Sales by principal classes of operations:

	1979	1978
	(thousands of dollars)	
Resins and industrial chemicals	\$ 109,733	78,332
Agricultural chemicals	81,961	56,456
Printing inks, graphic arts equipment and supplies	69,965	60,028
Oil and gas chemicals and other	25,695	17,506
	<u>\$ 287,354</u>	<u>212,322</u>

4. Sales by geographic area:

1979	Canada	United States	Eliminations	Consolidated
				(thousands of dollars)
Sales to customers outside the enterprise	\$ 230,549	56,805	—	\$ 287,354
Transfers between geographic segments	250	68	(318)	—
Total revenue	<u>\$ 230,799</u>	<u>56,873</u>	<u>(318)</u>	<u>\$ 287,354</u>

5. Interest:

Interest expense (net) is comprised as follows:

	1979	1978
	(thousands of dollars)	
Interest on long term debt	\$ 1,326	1,383
Bank and other	6,910	3,641
	8,236	5,024
Deduct interest income	<u>2,442</u>	<u>1,930</u>
Interest expense (net)	<u>\$ 5,794</u>	<u>3,094</u>

6. Capital stock:

(a) The Series A preference shares are convertible at any time up to December 8, 1982, at the option of the holder, into common shares of the Company at a conversion price of \$7.60 per common share, and are redeemable at the option of the Company after that date at prices ranging from \$10.50 per share, if redeemed on or before December 8, 1983, to \$10.00 per share, if redeemed after December 8, 1987. Commencing in 1983, the Company shall use all reasonable efforts to purchase for cancellation in each calendar year, 3% of the number of Series A preference shares outstanding on December 31, 1982 at prices not exceeding \$10.00 per share plus costs of purchase.

(b) In connection with the issue of the 8½ % sinking fund debentures, Series A, warrants were outstanding exercisable to November 1, 1979 entitling the holders thereof to purchase common shares at a price of \$4.00 per share. At the expiration date, warrants to purchase 13,326 common shares were not exercised.

The Company has a stock option plan under which 30,000 common shares have been reserved for purchase by key employees of the Company and its subsidiaries, at prices to be not less than the market value as determined by trading on The Toronto Stock Exchange on the day each option is granted. No options were exercised during the year. In January, 1979 options were granted covering 12,000 shares at \$11.0625 exercisable to January 25, 1984. At December 31, 1979, options were outstanding covering 6,000 shares at \$5.96 exercisable to October 23, 1980; 6,000 shares at \$6.92 exercisable to April 25, 1982; and the options covering the 12,000 shares granted in January 1979. During the year common shares were issued as follows:

	Number of common shares issued	Price	Total
			(thousands of dollars)
Conversion of 205,715 Series A preference shares	270,654	\$ 7.60	\$ 2,057
Exercise of warrants	253,149	4.00	1,013
Stock dividends	4,947	13.61	67
Sales for cash	800,000	15.00	12,000
	<u>1,328,750</u>		<u>\$ 15,137</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company has reserved 785,888 common shares for the potential conversion of the Series A preference shares, and the stock option plan, as described above. Exercise of the preference share conversion privileges and options would result in dilution of earnings per common share as disclosed in the consolidated statement of earnings.

(c) During the year, the Company reserved 350,000 common shares for the purposes of employee benefit plans. Under the employee stock purchase plan covering the Canadian employees, share purchases are to be made by the Trustee for the plan on any stock exchange in Canada where the shares are listed, but the Company may, in lieu of such purchases, issue common shares from treasury at the market price. The plan covering the United States employees, which commenced on January 1, 1980, requires common shares purchased by the Agent for the plan to be issued from treasury at the market price. Shares issued from treasury in any year are not to exceed 70,000. For the year 1979, such plans had no dilutive effect on earnings per common share.

(d) The Series A preference shares and the debt instruments referred to in note 9 provide certain restrictions on the payment of dividends on common shares. Under the most restrictive of these provisions, \$20,121,000 of consolidated retained earnings at December 31, 1979 were available for the payment of dividends to the holders of common shares. The debt instruments do not prevent the Company from paying fixed cumulative cash dividends on its preference shares.

7. Lien notes receivable:

Lien notes receivable consist of the following:

	1979	1978
	(thousands of dollars)	
Gross amounts receivable	\$ 9,399	8,419
Less unearned interest	<u>2,532</u>	<u>2,383</u>
	<u>\$ 6,867</u>	<u>6,036</u>
Amount due after one year	<u>\$ 5,735</u>	<u>4,896</u>

8. Bank advances and acceptances:

Bank advances and acceptances are secured by assignments of receivables and by pledges of inventories.

9. Long term debt:

Long term debt consists of the following:

	1979	1978
	(thousands of dollars)	
Sinking fund debentures:		
8½% Series A, due November 1, 1989 (retractable November 1, 1979)	\$ 245	3,120
11 ¼% Series B, due February 15, 1996 (retractable February 15, 1986)	6,940	7,000
Mortgages and secured notes payable, maturing at various dates to 1991 with interest varying from 5% to 10%	911	—
10½% secured sinking fund bond Series A, due April 1, 1992	<u>3,000</u>	<u>3,000</u>
	<u>11,096</u>	<u>13,120</u>
Less current portion	<u>206</u>	<u>220</u>
	<u>\$ 10,890</u>	<u>12,900</u>

(a) Sinking fund debentures:

The debentures are secured by a first floating charge on all the assets of the Company, except for receivables assigned and inventories pledged to secure bank advances and acceptances (note 8).

On November 1, 1979, \$2,549,000 principal amount of Series A debentures were surrendered by the holders for payment under the terms of the issue and \$326,000 principal amount was purchased and applied against the sinking fund. On February 14, 1980 the Company called for redemption on March 15, 1980, the remaining outstanding Series A debentures.

The Company is required to establish a sinking fund with respect to the Series B debentures by the payment of 8.5% annually of the principal amount outstanding on February 16, 1986, commencing in 1987 and continuing through 1995.

In addition, the Company is obliged in each twelve month period, ending February 15, to 1986, to apply \$175,000 to the purchase in the market of Series B debentures to the extent that such debentures are available for purchase at prices (including costs of purchase) not exceeding the principal amount thereof plus accrued and unpaid interest. During 1979, Series B debentures in the principal amount of \$60,000 were purchased pursuant to this requirement.

The Company may, if certain conditions are met, including payment of premiums, redeem the debentures.

The holder of any Series B debenture has the right to require the Company to prepay the principal amount on February 15, 1986.

(b) 10 $\frac{5}{8}$ % secured sinking fund bond, Series A, due April 1, 1992:

The bond is secured by a first fixed charge on certain real and immovable property of the Company in Thunder Bay, Ontario. In addition, the bond is secured by a floating charge on all other assets of the Company, subject to certain other rights and exceptions and the floating charge created to secure the Company's sinking fund debentures.

The Company is required to establish a sinking fund to retire principal amounts of \$100,000 annually commencing in 1981, rising to \$400,000 annually in 1990, with the balance of \$400,000 payable in 1992.

(c) Summary of repayment requirements:

Payments required to meet sinking fund requirements and other debt retirement provisions during the five years ending December 31, 1984 are as follows: 1980 – \$206,000; 1981 – \$343,000; 1982 – \$308,000; 1983 – \$401,000; and 1984 – \$225,000.

10. Commitments:

Estimated minimum future rental expenses under property and equipment operating leases that have initial or remaining non-cancellable terms in excess of one year are as follows: 1980 – \$1,979,000; 1981 – \$1,008,000; 1982 – \$905,000; 1983 – \$507,000; 1984 – \$429,000; and thereafter, in the aggregate, \$100,000. Approved commitments for plant and equipment additions at December 31, 1979 amounted to \$3,634,000.

11. Pension plans:

The Company maintains pension plans in Canada which cover substantially all of its Canadian employees. An actuarial valuation conducted in 1979 indicated that the present value of unfunded liabilities of the Canadian plans as at December 31, 1978 was approximately \$43,000 which was paid and charged to earnings in the year ended December 31, 1979.

Certain of the U.S. subsidiaries maintain pension plans for their employees. Actuarial valuations and estimates with respect to such U.S. plans indicate that the present value of unfunded past service liabilities thereunder as at December 31, 1979 should not exceed \$91,000.

Reichhold Limited

10 YEAR FINANCIAL REVIEW

(Thousands of dollars except per share items)

	1979	1978	1977
Sales	\$ 287,354	\$ 212,322	\$ 138,176
Earnings before income taxes	10,825	9,038	3,967
Net earnings	6,378	5,101	2,222
Expenditures on fixed assets	12,506	7,583	3,654
Investment in acquisitions	9,382	—	6,435
Provision for depreciation and amortization	3,264	2,439	2,063
Fixed assets at net book value	39,045	25,669	20,479
Basic earnings per common share ¹	\$ 2.40	\$ 2.53	\$ 1.39
Fully diluted earnings per common share ²	\$ 1.83	\$ 1.60	\$ 1.12
Fully diluted cash flow per common share ^{2 AND 3}	\$ 3.15	\$ 3.11	\$ 2.66
Dividends paid per common share ¹	\$.46	\$.38	\$.34
Book value per common share ^{1 AND 4}	\$ 13.15	\$ 11.81	\$ 10.27

¹Calculation of basic earnings per common share is based on the weighted monthly average number of shares outstanding during the respective periods. Book value per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the stock split in August 1977 (3 for 1) and the stock split in December 1968 (3 for 1).

²Calculation of full dilution is after giving effect to the factors described in note 6(b) to the consolidated financial statements.

³Cash flow is represented by additions to working capital from operations.

⁴After deduction for redemption value of preference shares.

1976	1975	1974	1973	1972	1971	1970
\$ 100,337	\$ 82,733	\$ 76,860	\$ 36,972	\$ 27,252	\$ 24,203	\$ 21,762
4,716	4,623	8,210	2,930	1,826	1,046	327
2,381	2,375	4,218	1,632	981	512	145
4,210	4,671	2,795	2,316	1,074	677	742
4,738	—	—	8,056	—	—	—
1,660	1,214	1,148	762	635	579	525
18,109	12,970	9,346	7,469	5,014	4,524	4,401
\$ 1.49	\$ 1.49	\$ 2.65	\$ 1.13	\$.68	\$.35	\$.10
\$ 1.29	\$ 1.29	\$ 2.26	\$.97	\$.59	\$.32	\$.08
\$ 2.58	\$ 2.39	\$ 3.13	\$ 1.49	\$ 1.00	\$.68	\$.47
\$.33	\$.32	\$.24	\$.14	\$.10	\$.08	\$.08
\$ 9.81	\$ 8.65	\$ 7.48	\$ 5.07	\$ 3.98	\$ 3.40	\$ 3.13

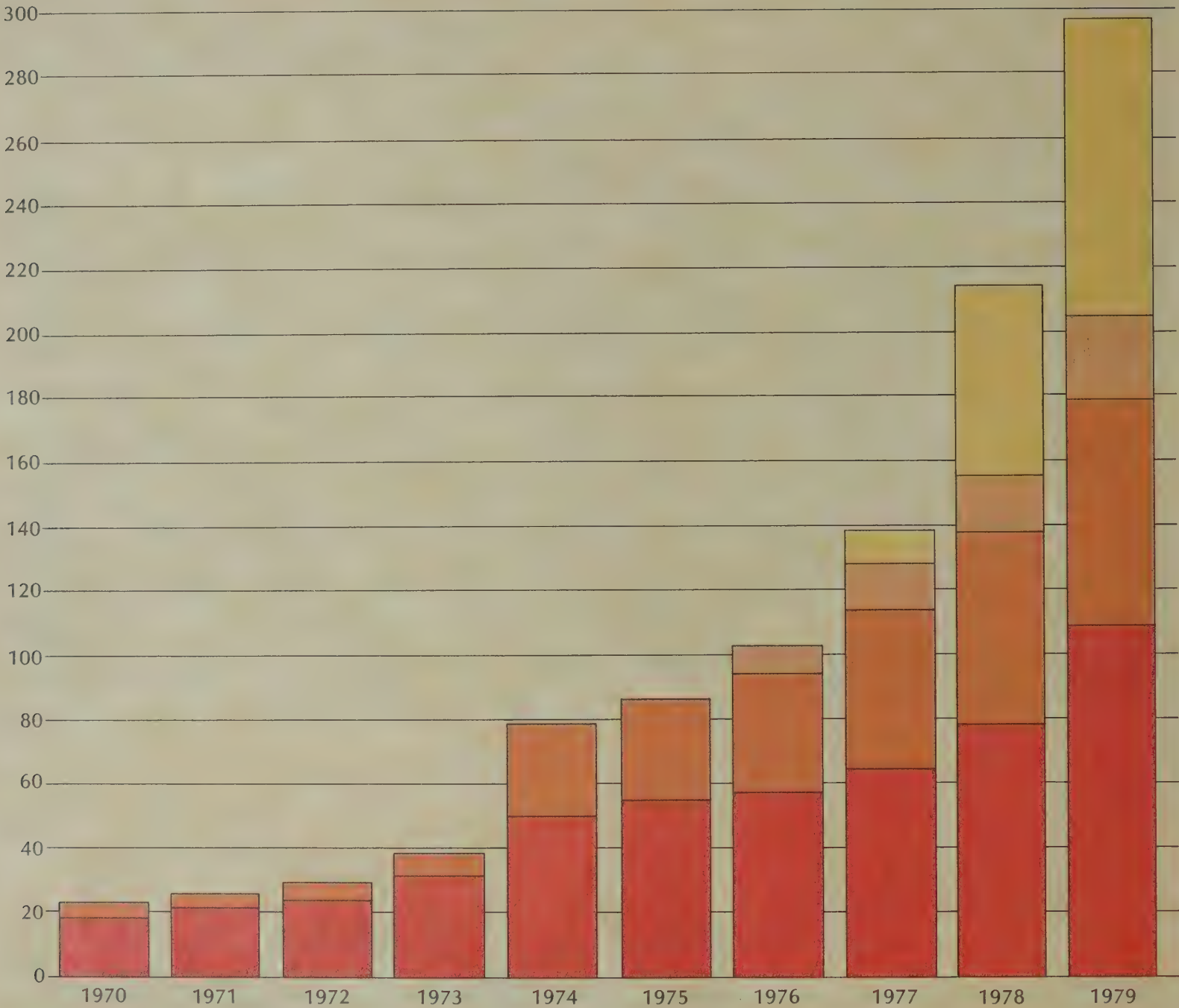
Valuation Day
For Canadian capital gains tax purposes, the Valuation Day value of Reichhold Limited securities on December 22, 1971 as established by the Department of National Revenue were the following:

Debentures:
8-½% Series A.
due November 1, 1989 \$100.00
*Common shares: \$3.00

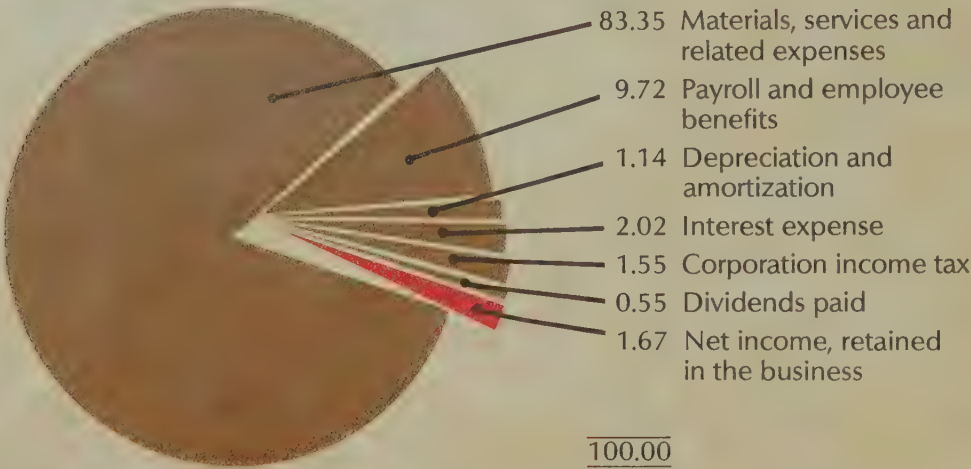
*The Valuation Day value of a common share has been adjusted to reflect the stock split in August 1977, whereby two additional shares were issued for each share held prior to the split.

10 YEARS OF SALES GROWTH

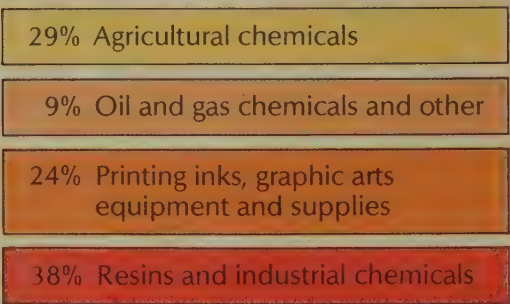
Millions of Dollars



Disposition of sales dollar: 1979



Dollar sales product mix: 1979





PRODUCTS FOR AGRICULTURE



The agricultural segment of Reichhold is one of the newest and fastest growing in the organization. Both Woolfolk Chemical Works, Inc. in the United States and the Niagara Chemical Division in Canada have achieved strong internal growth. Early in 1979, Woolfolk acquired and expanded a sulphur processing operation in south Alabama. This division now provides specially processed sulphur for agriculture and for the rubber industry.

Woolfolk has developed a special line of lawn and garden chemicals which it sells to distributors in the southeastern United States under the "Security" label.

Reichhold has recognized the great potential in the lawn and garden industry and is expanding its activities in that area.

Sunniland Corporation in Sanford, Florida was established to broaden Reichhold's sales, not only to the agricultural industry, but also to the lawn and garden business in Florida. Sunniland manufactures fertilizers and pesticides for agriculture, lawn and garden, golf courses and parks.

Florida Seed and Feed Company, acquired in 1979, is a wholesale distributor of seed and lawn and garden supplies of all kinds. It sells a number of products under its own "Garden Favorite" label and also carries other lines of products such as "Ortho", "Sunniland", "Security", "True-Temper", and many other brand names.

Niagara Chemical, a leading supplier of products to the agri-

business community, expanded its base by adding two agricultural machinery departments – Niagara Machinery, servicing Canadian orchard growers, and Canadyne Machinery Corporation, servicing fruit growers in the eastern United States.

Agricultural sprayers and related equipment have been added to the Niagara line to offset seasonal sales patterns. A fibreglass orchard sprayer, manufactured with Reichhold resins in Australia, is being distributed for eastern Canada and east of the Mississippi in the United States. Other additions include power ladders, orchard mowers, brush clippers, forklifts, and treeshakers.

Through the sale of crop protection products such as pesticides, fungicides and fertilizers, in both Canada and the United States, and the sale of brand-name consumer products and supplies, Reichhold's role in the agricultural and lawn and garden industry is growing rapidly.

The Company's own research and that of its suppliers is continuously developing improved formulations for consumer products to help produce healthy gardens, and lush, green lawns.

Food for the table, from peanuts to field crops and fruit, is aided by the skilled product development and the manufacturing and technical service advice of Reichhold's agricultural divisions.

Reichhold – helping agriculture make good ideas work.



EQUIPMENT AND SUPPLIES FOR THE GRAPHIC ARTS INDUSTRY



For fifty-five years, Sears has served the Canadian graphic arts industry with the finest in equipment and supplies.

Offering impressive product lines from such well-known manufacturers as Heidelberg, Mueller-Martini, Polar, MBO, Itek, together with complete selections of films, plates, chemicals, and related products, has made Sears the largest graphic arts distributor in Canada.



Several new items were added to Sears' large and prestigious line of products in 1979, including the Polar EMC (Eltromat Micro Computer) Paper Cutter and the Computer Print Control systems for Heidelberg Speedmaster presses. These products illustrate the emergence of the computer era in graphic arts equipment.

In 1979, Sears also introduced, in Toronto, the first in a planned network of "retail" outlets. With the motto "Let Us Be Your Inventory", the Sears Graphic Supermarket provides an immediate, around-the-corner source of paper, inks and supplies for small printers or for businesses which have in-house printing facilities. This move into the retail level is a natural development of Sears' success in identifying and developing new markets.

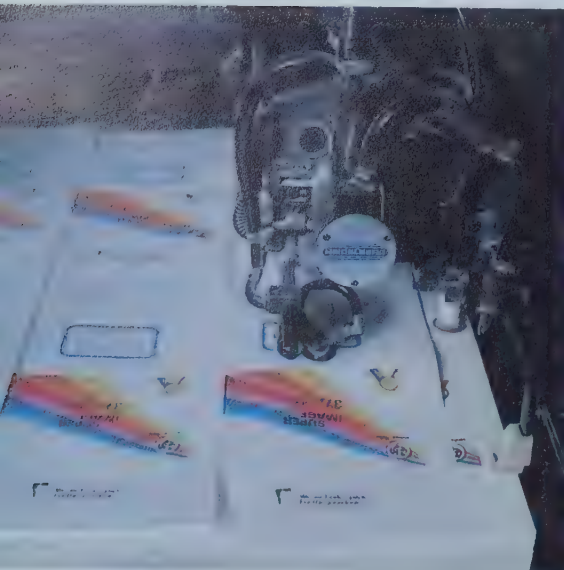
New production methods have made it easier for banks, insurance companies and other similar institutions to do some of their own work in-house. In recognition of the importance of this fast growing market, Sears created its In-Plant Division, serviced by a staff of well-trained

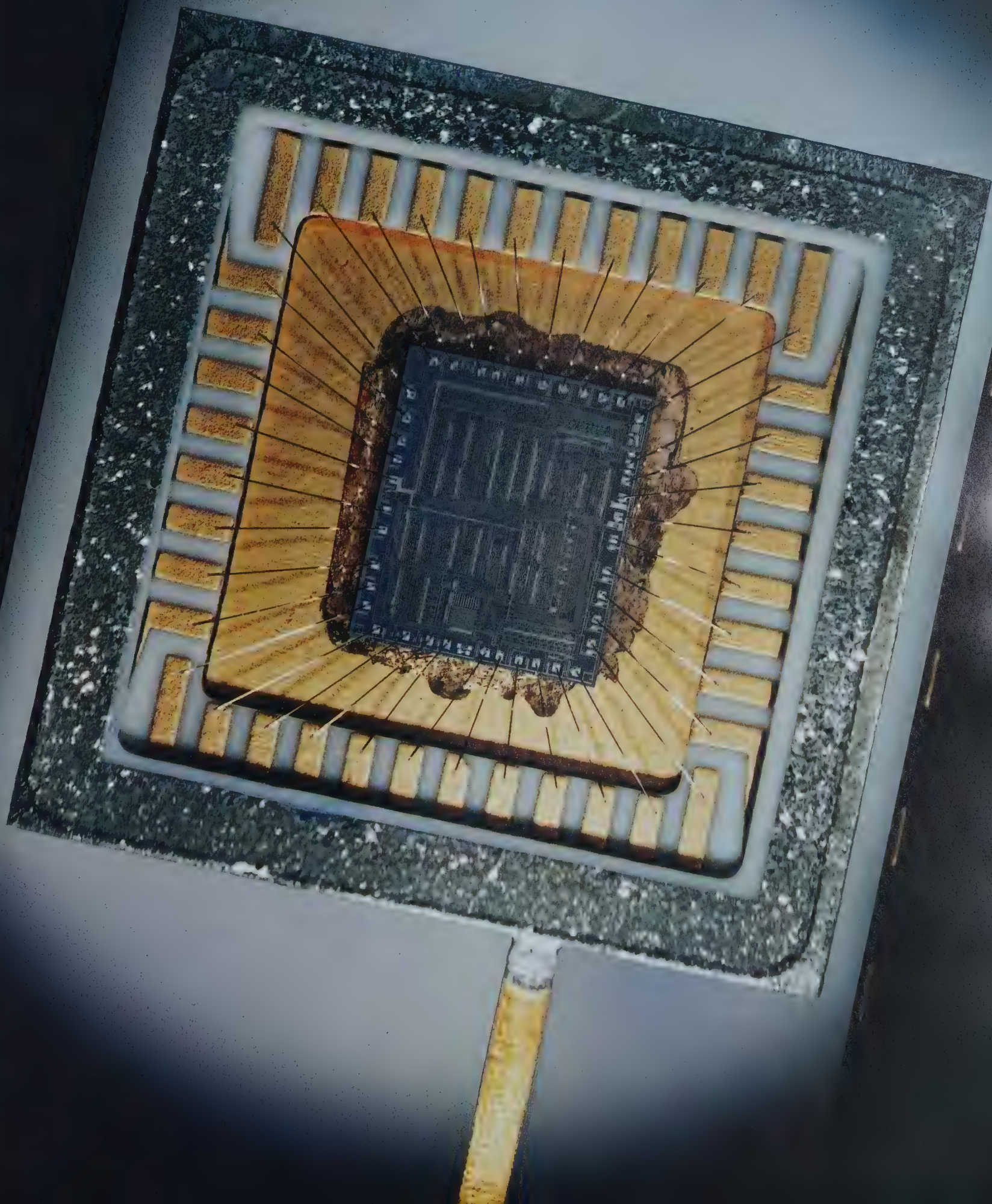
sales and service personnel.

The newly-created Systems Division markets products such as the Olivetti P6060 Computer and high-speed phototypesetters from Itek Composition Systems.

Sears provides its quality sales and service from fourteen major cities across Canada, with six locations operating as combined Sears/Canada Printing Ink distribution centres.

Sears – helping the printing industry to make good ideas work.





INK AND SUPPLIES FOR THE PRINTING INDUSTRY



For Canada Printing Ink, 1979 marked the one hundredth year of manufacturing printing inks and supplying printers in Canada with the finest in printing inks and graphic arts supplies.

Canada Printing Ink is Canada's foremost manufacturer of quality printing inks. Through its research facilities and technical personnel, using modern research equipment, Canada Printing Ink has successfully introduced many dramatic ink innovations for the printing industry in recent years. In answer to the government's demand for environmental pollution control, Canada Printing Ink now manufactures printing inks designed to minimize pollution for high-speed newspaper and web presses. It has also introduced many important technical innovations in printing inks for sheetfed printers.

This year Canada Printing Ink's new plant in Burlington, Ontario was brought on-stream with an automatic computerized ink manufacturing system unique in Canada. It produces news inks and web news inks for bulk shipment in Canada and to the United States.

Canada Printing Ink's Toronto and Montreal branches are both large producers of conventional sheetfed inks, with modern roller ink mills in both plants. Branches in Edmonton, Winnipeg, Vancouver, Calgary, Moncton, Halifax, London, Ottawa and Quebec City serve the industry across Canada. These branches carry a complete variety of printing inks and a stock of

thousands of graphic arts products to fulfill every printer's needs.

In recent years, Canada Printing Ink's technology assistance has been requested from countries around the world. To accommodate the ever-increasing demand for superior printing inks, warehouses in Buffalo, New York and Minneapolis, Minnesota were opened to service printers in these areas. Offshore, Canada Printing Ink has licensed its technology to several manufacturers.

Canada Printing Ink – helping the printing industry put good ideas into colourful print.



PRODUCTS TO SERVE THE OIL & GAS INDUSTRY



Skilled technology to meet special needs is a feature of Reichhold's chemical divisions serving the oil and gas industry.

The Travis Chemicals Division formulates and distributes specialized chemicals used in oil and natural gas processing in Western Canada. Travis maintains laboratories and manufacturing facilities in Calgary and branches in Edmonton, Alberta and St. John, British Columbia. Travis is noted for its quick response and quick solutions to difficult field problems.

Reichhold's acquisition of Chemical Manufacturing Exchange, Inc. of Crockett, Texas in 1979, has expanded the group's manufacturing capacity and the product range of specialized chemicals produced for use in the oil and gas industry in both the United States and Canada.

Reichhold's products for the expanding oil and gas business in North America will have a strong, bright future.

Technology is also the basis for the success of the Molsberry Division based in Edmonton, Alberta and Peterborough, Ontario. Molsberry clears vegetation and maintains oil and gas pipeline and transportation rights-of-way by using chemicals and specially designed equipment.

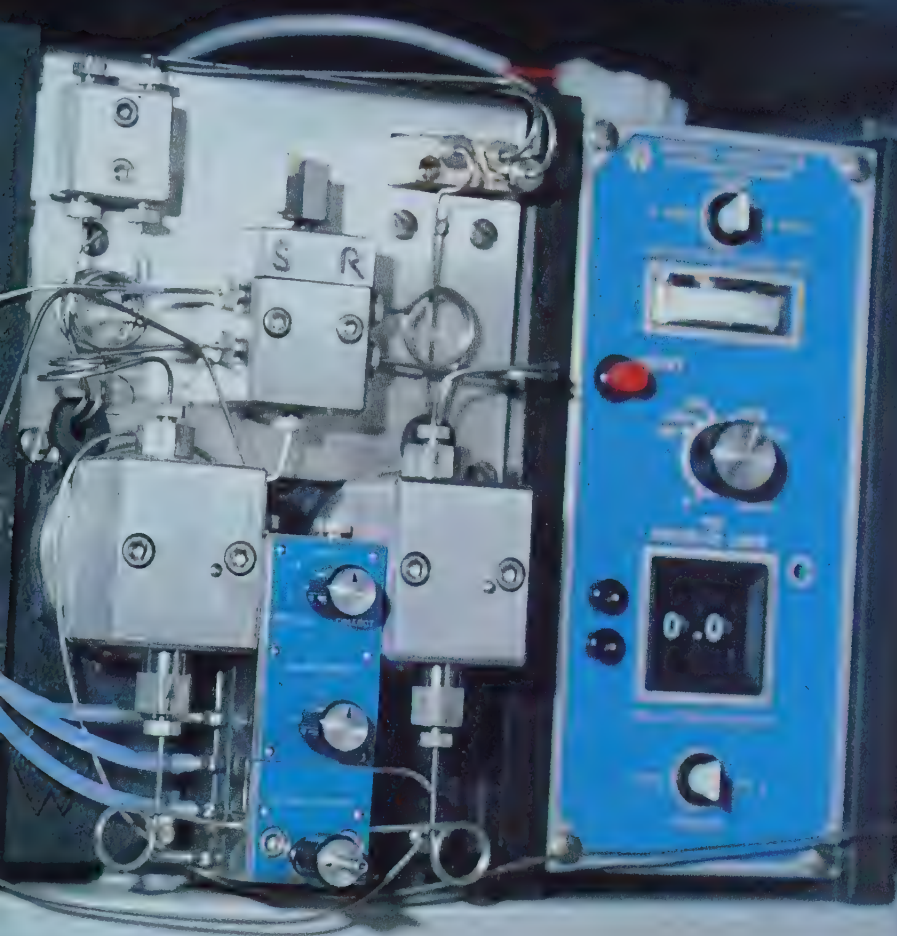
Canadyne Oil and Gas Corporation was established late in 1978 to introduce the Company to the oil and gas exploration industry in the United States, primarily in

Louisiana and Texas. The principal emphasis during 1979 has been the assembly and sale of land tracts for exploration drilling by industry partners. Canadyne Oil and Gas retains a working interest in all prospects generated and sold.

Reichhold – working with the oil and gas industry to make good ideas work.

Waters Scientific, Ltd.
(416) 677-0580

LIQUID CHROMATOGRAPHY



DIRECTORS

Robert J. Adams

Vice-President and Manager,
Resin Division – Eastern

Charles B. Breedlove

Executive Vice-President,
Reichhold Chemicals, Inc.

Alexander B. Davie

Vice-President and Manager,
Resin Division – Western

J. Demicher

Chief Financial Officer and Treasurer

Peter J. Fass

President,
Reichhold Chemicals, Inc.

George L. Hagen

President and Chief Executive Officer,
Reichhold Limited

Donald J. McLeod

Vice-President and Manager,
Resin Division – Central

Donald G. McNabb

Executive Vice-President,
Reichhold Limited

William H. Munden

Vice-President and General Manager,
Canada Printing Ink Division

Robert T. O'Shaughnessy

Vice-President Administration,
Reichhold Limited

William H. Sears

Vice-President and General Manager,
Sears Division

Brian W. Shields, Q.C.

Partner, Law Firm of Tory, Tory,
DesLauriers and Binnington

OFFICERS

G.L. Hagen

Chairman of the Board, President and
Chief Executive Officer

D.G. McNabb

Executive Vice-President

R.J. Adams

Vice-President

A.B. Davie

Vice-President

E.M. Gres

Vice-President,
New Business Development

C.J. Lewis

Corporate Comptroller

D.J. McLeod

Vice-President

W.H. Munden

Vice-President

R.T. O'Shaughnessy

Vice-President

T.I. Paul

Assistant Treasurer

W.H. Sears

Vice-President

B.W. Shields, Q.C.

Secretary

R.F. Smith

Vice-President and General Manager
Travis Chemicals Division

H.H. Reichhold

Honorary Chairman of the Board

PLANTS & OFFICES

Head Office

600 The East Mall
Islington (Toronto), Ontario
M9B 4B1

RESIN AND CHEMICALS GROUP

Resin Division

Weston, Ontario
Ste. Thérèse de Blainville, Québec
Lindsay, Ontario
North Bay, Ontario
Thunder Bay, Ontario
Kamloops, British Columbia
Port Moody, British Columbia

Travis Chemicals Division

Edmonton, Alberta
Calgary, Alberta
Fort St. John, British Columbia

Molsberry Division

Edmonton, Alberta
Calgary, Alberta
Peterborough, Ontario

Intertech Division

Richmond, British Columbia
Calgary, Alberta
Winnipeg, Manitoba
Toronto, Ontario
Boucherville, Québec
Dartmouth, Nova Scotia

Niagara Chemical Division

Burlington, Ontario
Longueuil, Québec
Regina, Saskatchewan
Kelowna, British Columbia

GRAPHIC ARTS GROUP

Canada Printing Ink Division

Halifax, Nova Scotia
Moncton, New Brunswick
Québec City, Québec
Montréal, Québec
Ottawa, Ontario
Toronto, Ontario
Burlington, Ontario
London, Ontario
Winnipeg, Manitoba
Edmonton, Alberta
Calgary, Alberta
Vancouver, British Columbia

Sears Division

Moncton, New Brunswick
Québec City, Québec
Montréal, Québec
Ottawa, Ontario
Toronto, Ontario
Hamilton, Ontario
Kitchener, Ontario
London, Ontario
Winnipeg, Manitoba
Regina, Saskatchewan
Saskatoon, Saskatchewan
Edmonton, Alberta
Calgary, Alberta
Vancouver, British Columbia

PRINCIPAL OPERATING SUBSIDIARIES

Woolfolk Chemical Works, Inc.

Fort Valley, Georgia

Chemical Manufacturing Exchange, Inc.

Crockett, Texas

Florida Seed and Feed Company, Inc.

Ocala, Florida

Sunniland Corporation

Sanford, Florida

Registrar and Transfer Agent

Common Stock

National Trust Company, Limited
Toronto, Montreal, Vancouver,
Calgary, Winnipeg

Auditors

Peat, Marwick, Mitchell & Co.
Commerce Court West, Toronto

Mauldin & Jenkins

Albany, Georgia

Duggin, Joiner, Birkenmeyer,
Bertine & Stafford, P.A.
Ocala, Florida

Harold M. Walker
Crockett, Texas

Greene and Dycus
Sanford, Florida

Our 1979 Annual Report was typeset on a QUADRITEK 1200 and printed on a HEIDELBERG 28 x 40" 5-colour offset press using CANADA PRINTING INK process inks throughout. Signature folding was done on a new generation MBO Model T74, and saddle-stitched on a MUELLER-MARTINI Gatherer-Slitcher-Trimmer.

REICHHOLD

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To Our Shareholders

Net earnings for the first half of 1979 were \$3,756,000, or \$1.74 per share (\$1.17 fully diluted), an increase of 42% from last year.

Second quarter net earnings were \$2,876,000 or \$1.33 per share (\$0.92 fully diluted) as compared with \$880,000 in the first quarter 1979. Most divisions achieved better than anticipated sales and earnings and those of the Resin and Sears Divisions were particularly gratifying.

Sales were \$89,269,000 in the second quarter, up 39% from last year and the total for first half of 1979 came to \$147,750,000, versus \$107,098,000 last year.

We continue to be optimistic regarding the outlook for the coming months and 1979 as a whole.

July 19, 1979

George L. Hagen
President

INTERIM STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30
1979 and 1978

(Subject to Year-end Audit and Adjustment)

Additions to Working Capital

	SECOND QUARTER 1979	SIX MONTHS 1979	SIX MONTHS 1978
(Thousands of Dollars)			
Net Earnings	\$ 2,876	\$ 3,756	\$ 2,643
Depreciation and Amortization	688	1,309	1,163
Exercise of Share Purchase Warrants	219	275	12
Increase in Deferred Income Tax	1,269	1,496	1,053
Long Term Note Issued	81	604	—
	<u>\$ 5,133</u>	<u>\$ 7,440</u>	<u>\$ 4,871</u>

Deductions from Working Capital

Net Additions to Fixed Assets and Land	\$ 3,082	6,660	3,696
Dividends	372	705	693
Increase in Goodwill	—	15	—
	<u>\$ 3,454</u>	<u>\$ 7,380</u>	<u>\$ 4,389</u>

Increase (Decrease) in Working Capital	\$ 1,679	60	482
Working Capital Beginning of Year	21,590	23,209	23,134
Working Capital End of Period	<u>\$ 23,269</u>	<u>\$ 23,269</u>	<u>\$ 23,616</u>

Additional Balance Sheet Information

Net Property, Plant and Equipment	\$ 31,093	\$ 23,073
Long Term Debt	\$ 13,504	13,620
Deferred Income Taxes	7,759	4,885
Shareholders Equity	34,125	28,921

A Nos Actionnaires

Les bénéfices nets de la première moitié de 1979 furent \$3,756,000 ou \$1.74 par action (\$1.17 après dilution complète), une augmentation de 42 pour cent par rapport à l'année dernière.

Les bénéfices nets du deuxième trimestre furent \$2,876,000 ou \$1.33 par action (\$0.92 après dilution complète), en comparaison avec \$880,000 durant le premier trimestre de 1979. Les ventes et les profits de la plupart des divisions ont été meilleurs que prévus, particulièrement dans le cas de la Division des Résines et de la Division Sears.

Nos ventes furent \$89,269,000 durant le deuxième trimestre, une hausse de 39 pour cent sur l'année passée et le total pour la première moitié de 1979 atteignit \$147,750,000, en comparaison avec \$107,098,000 durant la première moitié de 1978.

Nos prévisions pour le reste de l'année 1979 continuent d'être optimistes.

George L. Hagen
Le président,

Le 19 juillet 1979

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended June 30
1979 and 1978

(Subject to Year-end Audit and Adjustment)

	SECOND QUARTER 1979	SIX MONTHS 1979	SIX MONTHS 1978
	(Thousands of Dollars)		
Net Sales	\$ 89,269	\$ 147,750	\$ 107,098
Cost of Sales	71,689	118,241	85,229
Gross Profit	\$ 17,580	\$ 29,509	\$ 21,869
Selling, General and Administrative Expenses	11,042	20,284	15,629
Net Operating Profit	\$ 6,538	\$ 9,225	\$ 6,240
Interest (Net)	1,455	2,660	1,425
Earnings Before Income Taxes	\$ 5,083	\$ 6,565	\$ 4,815
Estimated Income Taxes—Current	1,049	1,460	957
—Deferred	1,158	1,349	1,215
Net Earnings	\$ 2,876	\$ 3,756	\$ 2,643
Earnings per share (average shares outstanding in 1979 2,003,426 in 1978 1,641,366) after deducting \$263,863 for preference share dividend in 1979 and \$398,687 in 1978	\$ 1.33	\$ 1.74	\$ 1.39
Fully Diluted Earnings per Share	\$.92	\$ 1.17	\$ 0.83

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Shareholders
Report

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SECOND QUARTER 1979

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Reichhold Limited